

Message Text

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AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

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USDEL MTN GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

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TAGS: ETRD, EFIN, DA

SUBJECT: REDUCED TRADE AND PAYMENTS DEFICITS IN 1975

SUMMARY: SHARPLY RISING CONSUMER DEMAND IN THE LAST TWO
MONTHS OF 1975, TRIGGERED BY A TEMPORARY REDUCTION OF THE
VAT, LED TO A CORRESPONDING INCREASE IN IMPORTS AND
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CURTAILED SOMEWHAT AN ANTICIPATED IMPROVEMENT IN TRADE

AND PAYMENTS BALANCES. HOWEVER, THE FINAL TRADE DEFICIT FOR THE YEAR OF \$1,670 MILLION WAS STILL \$690 MILLION LOWER THAN IN 1974. THE IMPROVEMENT IN THE CURRENT PAYMENTS BALANCE WILL BE LESS BECAUSE OF INCREASING INTEREST PAYMENTS, PROBABLY SOME \$550 MILLION. WE ESTIMATE THE CURRENT PAYMENTS DEFICIT FOR 1975 AT ABOUT \$490 MILLION. NEW BORROWING ABROAD COVERED ONLY PART OF THE DEFICIT. FOREIGN EXCHANGE RESERVES DROPPED BY \$300 MILLION DURING 1975 TO \$997 MILLION BY THE END OF THE YEAR. END SUMMARY

1. DANISH IMPORTS, IN CURRENT PRICES, DROPPED 1.4 PERCENT FROM 1974 TO \$10,370 MILLION IN 1975. IN REAL TERMS, THERE WAS AN ABOUT 7 PERCENT IMPORT DECLINE. THE DECLINE WOULD HAVE BEEN GREATER WITHOUT THE 33 PERCENT INCREASE IN AUTOMOBILE IMPORTS. THERE WAS A NOMINAL INCREASE IN IMPORTS OF CONSUMER GOODS, CONCENTRATED IN THE LAST FEW MONTHS OF THE YEAR. ALL OTHER IMPORTS FELL: FARM IMPORTS BY 7 PERCENT; BUILDING MATERIALS BY 18 PERCENT; INDUSTRIAL RAW MATERIALS AND SEMI-MANUFACTURES BY 15 PERCENT; FUEL BY 2 PERCENT; INVESTMENT GOODS BY 11 PERCENT (ALL IN REAL TERMS).

2. IMPORTS FROM THE U.S. WERE DOWN ABOUT 7 PERCENT TO THE EQUIVALENT OF \$590 MILLION. THE DECLINE CORRESPONDED LARGELY TO THE DROP IN THE DOLLAR RATE FROM 1974 TO 1975, INDICATING THAT IMPORTS IN DOLLAR VALUES WERE ABOUT UNCHANGED FROM 1974 TO 1975. THE U.S. SUFFERED EXPORT LOSSES ON GRAIN AND SOYBEAN, BUT HAD GAINS ON STEEL PIPES, INSTRUMENTS AND DEFENSE EQUIPMENT. CAPITAL GOODS WERE ABOUT UNCHANGED.

3. DANISH EXPORTS ROSE 7 PERCENT IN CURRENT PRICES TO \$8,700 MILLION BUT DROPPED ABOUT 2 PERCENT IN REAL TERMS. THERE WERE GAINS ON BOTH ANIMAL AND VEGETABLE FARM PRODUCTS (11 PERCENT AND 9 PERCENT, RESPECTIVELY) BUT LOSSES ON CANNED GOODS (19 PERCENT). INDUSTRIAL EXPORTS DROPPED ABOUT 6 PERCENT IN REAL TERMS; MACHINERY, ACCOUNTING FOR ONE THIRD OF TOTAL INDUSTRIAL EXPORTS, FELL 10 PERCENT.

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4. DANISH EXPORTS TO THE U.S. FELL ABOUT 7 PERCENT TO THE EQUIVALENT OF \$440 MILLION, ALSO A DECLINE CORRESPONDING TO THE DOLLAR RATE DROP. THE DANES SOLD LESS HAM, CHEESE, FISH AND FURNITURE TO THE U.S. BUT HAD EXPORT GAINS ON CHEMICALS AND MACHINERY.

5. THE 1975 TRADE DEFICIT OF \$1,670 MILLION WAS ALMOST

30 PERCENT LESS THAN IN 1974, ALTHOUGH THE IMPROVEMENT WAS NOT QUITE AS LARGE AS HOPED FOR DURING THE YEAR. THE TEMPORARY VAT REDUCTION (FROM 15 PERCENT TO 9.25 PERCENT) FROM OCTOBER 1975 THROUGH FEBRUARY 1976 WAS INTRODUCED TO HELP DOMESTIC ACTIVITY GET OUT OF THE SLUMP. IT BOOSTED CONSUMER SALES BY ABOUT 15 PERCENT IN THE LAST TWO MONTHS OF 1975, BUT THE ADDITIONAL CONSUMER SPENDING WAS ALMOST DIRECTLY REFLECTED IN INCREASED IMPORTS. CONSUMERS, CONSIDERING THE TEMPORARY PRICE REDUCTION OFFERED BY THE VAT REDUCTION, SPENT THEIR MONEY ON HIGHER COST ITEMS, SUCH AS DURABLES, WITH A HIGH IMPORT CONTENT. IT SHOULD BE NOTED, HOWEVER, THAT AUTOMOBILES, THE SALES OF WHICH RECOVERED THROUGHOUT 1975, WERE EXEMPTED FROM THE VAT REDUCTION. MANY PURCHASES HAVE UNDOUBTEDLY BEEN EXPEDITED AS BUYERS WANTED TO REAP THE BENEFITS OF THE VAT REDUCTION. IT IS UNCERTAIN, THEREFORE, AT WHAT LEVEL THE MARKET WILL SETTLE WHEN THE FULL VAT RATE IS RE-INSTITUTED ON MARCH 1.

6. INTERNATIONAL PRICE DEVELOPMENTS IN 1975 FAVORED DANISH FOREIGN TRADE. THE DANES GAINED ABOUT \$220 MILLION ON TERMS OF TRADE AS A SMALL OFFSET AGAINST THE ABOUT \$1.5 BILLION LOSS INCURRED IN 1973 AND, ESPECIALLY, IN 1974. IN PRE-OIL CRISIS PRICES, THE DANISH TRADE DEFICIT IN 1975 WOULD HAVE BEEN QUITE SMALL, PROBABLY AROUND \$300 MILLION, AND THE CURRENT BALANCE OF PAYMENTS WOULD HAVE SHOWN A HANDSOME SURPLUS.

7. IN ANY EVENT, THE REDUCED TRADE DEFICIT IN 1975 MITIGATED THE LARGE PAYMENTS DEFICIT SIGNIFICANTLY. THE DEFICIT IN 1974 EXCEEDED ONE BILLION DOLLARS.
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FINAL PAYMENTS FIGURES FOR 1975 HAVE NOT YET BEEN PUBLISHED. CONSIDERING, HOWEVER, THAT THE NET INFLOW FROM THE EUROPEAN COMMUNITIES HAS BEEN SLIGHTLY REDUCED AND THAT THE DANES HAVE HAD INCREASING INTEREST COSTS (PARTLY RELATED TO OIL DEFICIT FINANCING), IT MAY BE ESTIMATED THAT THE CURRENT PAYMENTS DEFICIT IN 1975 HAS BEEN REDUCED TO ABOUT \$490 MILLION.

8. FOREIGN EXCHANGE RESERVES DROPPED \$300 MILLION FROM THE END OF 1974 TO THE END OF 1975. CAPITAL IMPORTS HAVE THUS BEEN LIMITED TO SOME FEW HUNDRED MILLION DOLLARS IN 1975. MOST ADDITIONAL BORROWING ABROAD IN 1975 WAS BY THE GOVERNMENT. THE ACCOUNTS FOR BOTH DIRECT INVESTMENT AND PORTFOLIO INVESTMENT

WERE LARGELY BALANCED. OTHER PRIVATE SECTOR TRANS-ACTIONS SHOWED A NET OUTFLOW OF CAPITAL THROUGH THE FIRST THREE QUARTERS OF 1975 BUT HAVE APPARENTLY GIVEN A NET INFLOW OF SOME \$75 MILLION IN THE LAST QUARTER.

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